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UNITED STATES OF AMERICA

Official Minutes from the October 19, 2020 MCC Advisory Council Meeting

Millennium Challenge Corporation, Fall Meeting via Webex
October 19, 2020
10:00 a.m. 12:30 p.m.

Meeting Agenda

9:45 a.m.	**Webex Conference Line Opens**
10-10:15 a.m.	**Call to Order and Roll Call** **Reaffirm Bylaws** Alex Dixon, Practice Lead/Senior Director, Finance, Investment and Trade
10:15-11:15 a.m.	**Welcome and Discussion with MCC Leadership** • **10:15-10:45 a.m.** **Member Introductions** Anthony Welcher, Vice President, Department of Compact Operations • **10:45-11:00 a.m.** **Welcome by MCC CEO** • **11:00-11:15 a.m.** **Member Q&A and Discussion** Sean Cairncross, MCC Chief Executive Officer
11:15- 11:25 a.m.	10-Minute Break
11:25 a.m.-12:15 p.m.	**Indonesia Access to Finance Presentation** **Member Feedback and Discussion** Panelists Stephen Gaull (Senior Operations Advisor), Martha Bowen (Country Director), Mackenzie Welch (Program Officer)
12:15-12:25 p.m.	**Advisory Council Housekeeping** Alex Dixon, Practice Lead/Senior Director, Finance, Investment and Trade
12:25-12:30 p.m.	**Opportunity for Public Comment**

12:30 p.m.	**Meeting Adjourns**

Call to Order and Welcome by MCC Leadership

Alex Dixon, Practice Lead/Senior Director of Finance, Investment and Trade
Anthony Welcher, Vice President, Department of Compact Operations

Mr. Dixon called the MCC Advisory Council meeting to order and welcomed the participants. He thanked the members for their ongoing commitment and participation.

Mr. Welcher also thanked the Advisory Council members for continuing to contribute their time and expertise. He announced that MCC was convening the first full virtual meeting of the new 2020-2022 term of the Advisory Council via Webex due to the COVID-19 global pandemic. However, he hoped to resume face-to-face meetings soon, particularly to meet the new members in person.

Mr. Welcher concluded the opening session by opening the floor for introductions. He noted that some former Advisory Council members had been reappointed. For the benefit of the new members, he asked all members to briefly describe their backgrounds and areas of expertise they would bring to bear to the Advisory Council.

Update by the MCC Chief Executive Officer (CEO)

Sean Cairncross, MCC CEO

Mr. Cairncross launched the 2020-2022 term of the MCC Advisory Council by welcoming both the 14 new members and 11 returning members. He described several key developments that have occurred since the previous meeting in June 2020.

Site Visits to MCC Partner Countries

- **Benin:** Mr. Cairncross had a meeting with President Patrice Talon and several ministers of governments that operate MCC programs in the field. He also met with U.S. Ambassador Patricia Mahoney, who is a strong supporter of MCC's activities. Moreover, he visited Compact planned activity sites and engaged with members of civil society.

- **Togo:** Mr. Cairncross met with Prime Minister Victoire Dogbe and U.S. Ambassador Eric Stromayer to discuss the Threshold Program.
- **Sierra Leone:** Mr. Cairncross met with President Julius Bio and U.S. Ambassador Maria Brewer. He also participated in a ribbon-cutting ceremony with Vice President Jalloh to commemorate the installation of one of nine new water kiosks as part of MCC's Threshold Program.

Overall, Mr. Cairncross's West Africa trip enabled him to deliver key messages to MCC's country counterparts. The site visits demonstrated MCC's extensive leverage with its partner countries. Most notably, these countries expressed a strong interest in MCC's programs, advice, assistance, and technical expertise.

MCC's COVID-19 Response

MCC is prioritizing the health and safety of its workforce and their families, both domestically and abroad, as part of the response to the COVID-19 global pandemic. MCC launched a phased approach to reentry to the field on June 8, 2020. The phased approach has been effective to date, but reentry is optional for MCC staff. MCC is pleased that all evacuated overseas staff have returned to their respective posts in-country. In-country contractors have confirmed the availability of personal protective equipment (PPE) and their ability to remain safe. MCC is continuing to track the impact of the global pandemic on its country portfolio. MCC has been closely coordinating and collaborating with the White House, Congress, and interagency partners to plan post-pandemic activities.

Programmatic Milestones

- MCC closed the El Salvador Investment Compact in September 2020. The compact activities included the launch of the country's first two public/private partnerships (PPPs): (1) expansion of the cargo terminal at San Salvador International Airport and (2) installation of street lighting and video surveillance on the highway around San Salvador.
- MCC signed a $450 million compact with the government of Burkina Faso to broaden and sustain the country's economic growth. The Burkina Faso government has pledged to invest $50 million toward the compact's projects, while El Salvador has pledged a strong contribution of approximately $88 million.
- MCC is making efforts to increase its collaboration with the United States International Development Finance Corporation (DFC) on the *Better Utilization of Investments Leading to Development* (BUILD) Act. MCC is identifying both near- and long-term opportunities with DFC to maximize overall impact. Most notably, the American Catalyst Facility for Development (ACFD) was created as a new mechanism to enable coordinated investments; increase impact and sustainability; and encourage greater coordination and collaboration among U.S. development agencies, including MCC and DFC. The partner agencies are continuing to draft the details of their proposed collaboration. The Advisory Council hopes to include an update on ACFD on a future agenda.
- MCC is continuing to make progress on the Millennium Impact for Infrastructure Accelerator (MIIA) Development Partnership as an additional blended finance mechanism. MIIA aims to develop bankable infrastructure deals to attract additional private capital and impact investors.

MCC and Africa50 will sign a Memorandum of Understanding (MOU) on October 21, 2020 to memorialize the planned collaboration. The partners expect to launch MIIA in early 2021.

- MCC is continuing to prioritize its women's economic empowerment (WEE) programs, including its strong commitment to the White House Women's Global Development and Prosperity Initiative. In the summer of 2020, MCC added WEE and blended finance as two new institutional investment criteria. This new programmatic approach will ensure that WEE and blended finance are incorporated as integral components of all MCC programs from the initial development phase through the final implementation phase.

Mr. Cairncross concluded his update by thanking the members for contributing their valuable time to serve on the Advisory Council. He confirmed that MCC will benefit from the diverse expertise of the membership. He also thanked the MCC staff for their ongoing efforts in planning and organizing the Advisory Council meetings.

MCC Advisory Council Discussion

- Carolyn Campbell requested additional details on the recent site visits to West Africa, particularly travel restrictions caused by COVID-19 and actions taken to overcome these barriers.
- Mr. Cairncross reported that all travelers to West Africa were tested for COVID-19 and received negative results 24 hours prior to departure and upon arrival in Benin. All members of the travel party adhered to mask and social distancing protocols as well. PPE and hand sanitizing stations were widely available during all three site visits. Benin, Togo, and Sierra Leone informed MCC of their effective safeguards against COVID-19, quarantine protocols in the event of a positive test result, and commitment to worker protection and safety. Public perception has been positive in all three countries regarding the government's response to the global pandemic. Moreover, Mr. Cairncross held conference calls with all country directors every two weeks to obtain a status report on the impact of the global pandemic to the workforce and contactors in their respective countries. MCC also is continuing to collaborate with state departments and host governments to ensure the safety of its workforce during travel.
- Dan Runde requested additional details on the Sri Lanka Compact.
- Mr. Cairncross shared that the MCC Board of Directors approved Sri Lanka's eligibility for a Compact in December 2016. MCC and the Government of Sri Lanka closely collaborated for two years to design transportation infrastructure and land reform programs to reduce poverty through economic growth, and the Board approved the $480 million Compact in April 2019. Since that time, the Compact has become politicized within the country—having faced disinformation campaign efforts. MCC has made clear that the Government of Sri Lanka will need to show strong, sustained public support for the partnership before further action is taken on the Compact.
- Peter Choharis inquired about MCC's key priorities, focus areas, and plans over the next few months in the current environment of a global pandemic.
- Mr. Cairncross explained that MCC will continue to collaborate with partner countries, the United States Agency for International Development (USAID) and other governmental partners in the global response to COVID-19. However, MCC will maintain its major focus on its core role and functions, such as infrastructure development, policy, institutional reform, and project sustainability for economic growth in-country. Overall, the global pandemic has reinforced the critical need for MCC. Most notably, the MCC model provides a core infrastructure that facilitates sustainable healthcare systems in partner countries, including trained hospital workers, outpatient

clinics, blood transfusion centers, and the delivery of basic and emergency services to vulnerable populations.

- Willie Gaynor asked Mr. Cairncross to use Burkina Faso as an example to describe MCC's plans to engage the Advisory Council and/or the private sector in its partner country projects.
- Mr. Cairncross provided both broad and specific responses.
    - In general, the Advisory Council will continue to play a vital role by providing guidance to MCC in its efforts to increase the engagement of the U.S. private sector in its partner country projects. Most notably, MCC has a strong interest in American companies applying their existing expertise and policies in the areas of accountability, transparency, merit-based hiring, environmental issues, gender inclusiveness, structure and economic analyses, and project management. However, Mr. Cairncross was aware of the critical need to raise the overall profile of MCC; widely publicize MCC's key role in reducing poverty in developing countries by supporting economic growth; and promote MCC's successes and impact in its partner countries.
    - In particular, MCC plans to engage the U.S. private sector in the Burkina Faso Compact to improve the energy sector. MCC will solicit American companies with an interest in submitting bids and investing in this project during the initial development phase.
- Florie Liser requested additional details on MCC's multi-country compacts in West Africa and the Ethiopia Threshold Program in East Africa.
- Mr. Cairncross provided updates on MCC's programs in the two regions.
    - *West Africa:* Legislation was signed into law to provide MCC with regional authority to engage in concurrent compacts with two countries simultaneously. MCC has not launched a regional compact to date due to the complexities involved with multiple partners. While MCC's development of a regional compact is underway there are delays due to the COVID-19 pandemic, however efforts are ongoing to address and rank key indicators in partner countries, particularly democratic rights, economic freedom, and government investments in their populations.
    - *East Africa:* MCC currently is developing a Threshold Program in Ethiopia with its in-country team to advance economic growth.
- Tam Nguyen questioned whether the partner countries will be positioned to sustain institutional capacity, infrastructure support, and project management capabilities after the MCC grant ends. He also asked about MCC's follow-up role in the partner county projects if their performance declines in the post-grant period.
- Mr. Cairncross noted that MCC's in-country teams include economists, analysts, project managers, and other experts as needed. The MCC teams closely collaborate and coordinate with each host government to establish a Millennium Challenge Account (MCA). Each MCA competitively hires a CEO and other staff, with representation by government officials, civil society members, and private sector investors. The in-country MCAs are independent of MCC and include in-house legal counsel, human resources personnel, and staff to address design, building, procurement, project management, and operational issues. The MCAs are established to ensure capacity building, country ownership, and sustainability of the project after the MCC grant ends.
- Tony Bello expressed an interest in engaging the U.S. food industry and agribusiness companies to advance food science and technology transfer in African countries. He questioned whether collaborative opportunities were available in this area for MCC and the Advisory Council to develop sustainable programs to strengthen food security and infrastructure.
- Mr. Cairncross confirmed that MCC is involved in agricultural projects in multiple countries at this time. He welcomed the opportunity to describe these efforts in more detail at a future meeting.

- Lawrence Jones characterized MCC as a "hidden gem." Based on his conversations with investors in multiple countries, for example, MCC is virtually unknown. He advised MCC to engage communications experts to widely publicize its key activities, global impact, and success stories in sustainable economic growth and poverty reduction worldwide.
- Mr. Cairncross agreed with the need to elevate MCC's public profile. He announced that as part of its systematic communications approach over the past two years, MCC has been soliciting new partners, presenting at conferences, and meeting with trade groups, domestic groups, and local governments. To advance this effort, he asked the Advisory Council members to discuss MCC's activities with their individual networks. to promote MCC's unique role in developing demonstrable, concrete, and large-scale infrastructure projects that have been completed on time and within their projected budgets.
- Josh Powell inquired about MCC's targets or goals to mobilize public and private resources.
- Mr. Cairncross confirmed that MCC is continuing to address, clarify, and refine specific goals and indicators with its Congressional appropriations committees and stakeholders. As a governmental agency, MCC is required to obtain full funding from Congress prior to the project implementation phase. Although MCC makes efforts to leverage private capital from each partner country to multiply its investment, these resources are not guaranteed. As a result, MCC develops each project by relying on the Congressional budget only.
- Dan Runde said that speed broadband is the new electricity after Covid-19 where everyone has to be online, and wondered if this ought to be something MCC could be focused on post Covid-19. He expressed the same sentiment with the shifting supply chains away from China to other places. How does MCC use its money/policy dialogue to optimize chances of compact and threshold countries to get some of this once in a generation opportunity?

Presentation: Indonesia Access to Finance

Martha Bowen, Country Director
Stephen Gaull, Senior Operations Advisor

Ms. Bowen explained that the constraints analysis process is a retrospective exercise that captures country-level data over several decades. Constraints analyses aim to identify important binding constraints to economic growth and observe these trends over time. MCC initiated the Indonesia II Compact development process in late 2018. MCC's preliminary analysis during Indonesia's Presential election year of 2019 was comprised of: (1) a constraints to economic growth analysis; (2) a constraints to women's economic participation analysis; and (3) an investment constraints and opportunities analysis.

MCC's constraints analysis identified three binding constraints to economic growth in Indonesia: (1) barriers to export-oriented competitiveness, (2) barriers to domestic productivity and innovation, and (3) costly and underdeveloped financial intermediation. MCC also identified women's economic participation and transport and logistics infrastructure as two important constraints that negatively impact Indonesia's growth.

The government of Indonesia eventually proposed project concepts to improve women's economic participation and transport and logistics infrastructure under the third constraint of "costly and underdeveloped financial intermediation." These two concepts were drawn from two key problem areas under this constraint: (1) costly and underdeveloped financial intermediation for micro, small and medium enterprises (MSMEs) and (2) costly and underdeveloped financial intermediation for transport and logistics infrastructure. The concepts are aligned with the platform of Indonesia's current Presidential administration.

MCC collaborated with more than 100 local governments during its first Compact with Indonesia. MCC's key lesson learned from this effort was to streamline the number of local partners to ensure appropriate coordination with the Indonesian MCA, effective implementation of the Compact, and successful management of the overall project. Using a data-driven selection process, South Sumatra, North Sulawesi, and Riau were have been identified as the preliminary project geographies for the Indonesia II Compact.

Mr. Gaull reported that MCC conducted preliminary analyses to identify the core problems, root causes, and intervention areas of the Indonesia II Compact.

Mr. Gaull pointed out that MCC would greatly benefit from the Advisory Council's feedback on specific issues for three potential intervention areas identified in the preliminary analyses:

- Infrastructure Finance (Brownfield Asset Recycling and Financial Asset Recycling)
- MSME Finance (Value Chain Financing and Fintech)
- W-MSMEs (Fintech)

To facilitate the discussion, Mr. Gaull asked the Advisory Council members to respond to two key questions.

1. What has worked or not worked and what are the lessons learned based on the experiences of the Advisory Council members in other settings?
2. Based on the themes identified in MCC's preliminary analyses and the need to further focus the program, how should a blended finance lens be applied to address the binding constraint of costly and underdeveloped financial intermediation by:

- Deepening capital markets
- Diversifying the investor base
- Broadening the range of instruments?

Ms. Bowen concluded the presentation by thanking the Advisory Council members for their excellent written feedback to MCC on the Indonesia II Compact. She noted that the comments focused on three broad categories: (1) Indonesia's ability to recover from the COVID-19 global pandemic; (2) the need for a strong sectoral focus; and (3) the critical need for interagency cooperation.

MCC Advisory Council Discussion

- Stephen Groff expressed support for MCC's current approach to developing the Indonesia II Compact. However, he advised MCC to engage and leverage opportunities with the Asian Development Bank (ADB) at the outset of the project due to its large focus on Indonesian

programs. Most notably, ADB has initiated discussions with HSBC and Temasek to establish a sustainable investment platform.
- Ms. Bowen agreed that MCC, rather than its Indonesian colleagues, should play a leading role in leveraging opportunities for interagency cooperation.
- Oren Whyche-Shaw inquired about the approaches MCC and other donors are implementing at this time to raise the level of bank deposits. Because the MCC grant is for five years only, she emphasized the need for MCC to develop a clear exit strategy to ensure long-term sustainability in Indonesia.
- Ms. Bowen noted that efforts are underway to formalize banking in remote areas and within poor communities, but overall, incentives for banks to increase their deposit base or take other types of risks are limited at this time. MCC's analyses showed that state-owned banks in Indonesia maintain their individual asset holdings and are required to adhere to strict government regulations on credential management. Moreover, banks in Indonesia now have the authority to buy government debt.
- Mr. Gaull added that MCC will consider the cash-in/cash-out regulatory reform as a mechanism to increase digital liquidity and the level of deposits in the banking system. During its further development of the Indonesia II Compact, he said that MCC also will look at digital payments, digital liquidity, insurance penetration, and pension reform as a part of the review of the reform agenda. Overall, one of the most significant infrastructure challenges at this time is insufficient internal funding to finance Indonesia's $1.7 trillion financing gap. Both international and local institutional investors will need to be engaged in infrastructure finance to solve this problem. MCC will seek to play a key role in this effort by using its blended finance tools to help create this marketplace.

Mr. Dixon announced that the remainder of the discussion would be devoted to questions and comments by the Advisory Council members. He confirmed that Ms. Bowen and Mr. Gaull would provide written responses to include to the meeting minutes. Due to time constraints, he extended the meeting to 1:00 p.m. He thanked the Advisory Council members for their patience and ongoing participation.

- Kate Ahern requested additional information on the logistics and decision-making process to disseminate female-responsive financial products in Indonesia. For example, she questioned whether the Indonesia MCA would release requests for applications to solicit creative and innovative strategies in this area.
- Tariye Gbadegesin described her practical financing experience in West Africa using blended finance solutions. She encouraged MCC to make efforts in replicating these successes in the Indonesia II Compact.
    - Power Africa has been extremely successful due to its ability to leverage expertise to incorporate a legal financing framework into the energy sector. This strategy has allowed private investors to collaborate with governments on state power purchasing agreements and standardized concession agreements. Moreover, the engagement of international counsel support allowed the Power Africa partners to channel significant amounts of capital into the energy sector.
    - A blended finance instrument was developed and implemented in Benin, *Côte d'Ivoir and other countries in West Africa in 2019. The blended finance instrument was extremely effective and was able to* leverage trillions of dollars in international institutional capital within a sovereign structure.
    - InfraCredit has been tremendously successful in providing local currency guarantees to

enhance the credit quality of debt instruments. These vehicles are issued to finance creditworthy infrastructure assets in Nigeria and placed in pension fund markets.
    - Nigeria currently is focusing on the development of construction guarantee takeouts. The key features of this instrument include (1) collaborating with banks; (2) breaking up the full risk spectrum of infrastructure (e.g., development, construction and operations in years 1-10); (3) targeting intermediaries for each component; and (4) utilizing MCC and other development finance organizations.
- Robert Prieto advised MCC to consider several key issues during the project selection/ project modeling process for the Indonesia II Compact.
    - Emphasis should be placed on whether an individual project will represent an initial operating segment with much larger potential. To support this effort, MCC should focus on specific sectors or geographical areas.
    - For areas in which SMEs do not have sufficient capacity to conduct meaningful activities, MCC should explore the possibility of fostering cooperatives with teams of SMEs or women-owned businesses. The critical importance of mentor-protégé relationships has been demonstrated as well.
    - Women CEOs are the heads of multiple construction companies and construction non-governmental organizations (NGOs). These entities have a proven track record of success, including the implementation of international development activities. MCC should engage these leaders to leverage the experience of women-driven NGOs in developed countries in the infrastructure setting.
    - MCC should coordinate its activities with lenders to structure loans that will be more beneficial to MSMEs. For example, MCC's role in this effort could be to provide support and/or guarantees.
- Peter Choharis provided comments to MCC on two key issues. First, MCC should take caution in implementing the Indonesia II Compact to avoid market distortions if the financial sector is small. For example, if MCC is supporting infrastructure, this might squeeze out SMEs in terms of access to finance. Second, MCC should provide leadership to provincial-level PDFs, particularly to oversee their daily operations and minimize political corruption. Mr. Choharis also questioned whether MCC has collected data on Fintech's ability to provide financing to SMEs, including women-owned enterprises.
- Valérie Vencatachellum asked MCC to describe its (1) strategy to implement the Indonesia II Compact while addressing country-level political risks and integrating political economy analysis and (2) approach to prioritize financing to MSME/W-MSMEs that can have a transformative effect on the economy.
- Maureen Harrington advised MCC to engage U.S. institutional investors, particularly pension funds, at the outset of the Indonesia II Compact. MCC's early engagement of U.S. investors will be critical in terms of explaining their potential role in the Indonesian projects and describing the benefits of their investments without placing their pensioners at risk. Most notably, MCC's discussions should focus on the potential returns of investing in infrastructure in Indonesia. MCC also should play a key role in providing guarantees to institutional investors with a good rating to become involved in the Indonesian projects. MCC should explore the possibility of conducting a case study to determine the role of local versus international investors in the area of pension reform in Indonesia.
- Carolyn Campbell asked MCC to describe any constraints related to the hard currency aspects of the Indonesia II Compact, particularly in the financial sector infrastructure.
- Oren Whyche-Shaw said once you have a track record, you can begin to start negotiating with pension funds to be take outs in the development of infrastructure financing, thus reducing even

greater risk.

- Tony Bello built upon and echoed Mr. Prieto's points on project selection, development and implementation, noting that there are live examples in Nigeria; teaming of MSMEs; and W-MSMEs in project selection opportunities. Adding to this, market off-take guarantees to pioneer strategic U.S. company partnerships with local companies, bringing supporting technical expertise through U.S. companies. Our example of pioneering U.S. market offtake of functional tapioca flour, bundling local growers, and processors of cassava (tapioca) to leverage government financing in Nigeria and the U.S. in collaboration with Development Partners and Donors.

Ms. Bowen thanked the Advisory Council members for providing MCC with outstanding feedback based on their institutional and individual perspectives. She emphasized that MCC will thoroughly consider the comments in its further development of the Indonesia II Compact. She confirmed that MCC will respond to the Advisory Council's guidance in writing (See Annex 2 below for MCC's written response).

Housekeeping Items/Closing Remarks

Alex Dixon, Practice Lead/Senior Director of Finance, Investment and Trade

Mr. Dixon covered three major items in his announcements.

- **Adoption of the MCC Advisory Council Bylaws**: The bylaws were disseminated to the members in advance of the meeting for formal adoption. Beth Roberts asked if anyone had a dissent that it be noted. Hearing none, the Bylaws were deemed adopted and will be uploaded to the Advisory Council webpage.
- **MCC Advisory Council Co-chairs**: The terms of the two former co-chairs ended after their maximum four-year terms were reached. The two new co-chairs can be appointed by the members nominating other members or themselves. The level of effort of the co-chairs is approximately 20 hours per quarter. The duties of the co-chairs include reviewing potential items to place on meeting agendas; addressing governance issues related to the Advisory Council; and serving as the major communications liaison between MCC and the Advisory Council membership.
- **MCC Advisory Council Subcommittees:** Several members recently expressed an interest in establishing a new External Outreach Committee. MCC has found subcommittees to be extremely useful in fully leveraging the depth and breadth of the expertise of individual Advisory Council members. For example, subcommittees have allowed the members to showcase their experiences in the blended finance, energy, transportation, and water sectors. However, Advisory Council members are not required to serve on a subcommittee.

Mr. Dixon was pleased with the diverse representation of the Advisory Council members, including their geographical areas, gender, sector expertise, and individual perspectives. He noted that MCC looks forward to the high-level advice and guidance the members will provide during the 2020-2022 term. He emphasized that the members should feel free to email him at dixona@mcc.gov to openly and honestly discuss any criticisms, complaints, issues or areas of improvement. Mr. Dixon pointed out that one-on-one telephone discussions with MCC leadership also can be arranged, particularly with the new members.

Mr. Dixon concluded his remarks by thanking Beth Roberts and Jennifer Rimbach for their excellent leadership in planning and organizing the Advisory Council meetings. He confirmed that MCC will make every effort to improve the full Webex meetings in the future. He thanked all attendees for their time and participation.

Public Comment Period

Mr. Dixon explained this agenda item for the benefit of the new members. The MCC Advisory Council is an advisory body that is chartered under the Federal Advisory Committee Act (FACA). FACA advisory committees are required to comply with three major rules and regulations. First, meeting notices must be published in the *Federal Register* at least 15 days in advance. Second, meetings must be open to the public. Third, time must be set aside on the agenda for members of the public to provide oral or written comments to the advisory committee.

No public comments were submitted for this meeting.

MCC Advisory Council Meeting Adjourned

MCC Advisory Council Members Present

- Kate Ahern, Cartica Management, LLC
- Tony Bello, Shine Bridge Global, Inc.
- Carolyn Campbell-Jourdan
- Peter Choharis, The Choharis Law Group, PLLC
- Justin DeAngelis, Denham Capital
- William Gaynor, Rock Creek Advisors
- Tariye Gbadegesin, ARM-Harith Infrastructure Investment Ltd
- Stephen Groff, National Development Fund
- Cem Hacioglu, West Africa LNG Group, Inc.
- Maureen Harrington, Standard Bank
- Lawrence Jones, Edison Electric Institute
- Jeffrey Krilla, Kosmos Energy
- Florie Liser, Corporate Council on Africa
- Tam Nguyen, Bechtel
- Joshua Powell, Development Gateway
- Bob Prieto, Strategic Program Management LLC
- Shehnaz Rangwala, Leadership Global
- Daniel Runde, Center for Strategic and International Studies
- Nadia Schadlow, Hudson Institute
- Kate Steel, Nithio
- Valérie Vencatachellum, Tony Blair Institute for Global Change
- Olu Verheijen, BFA Foundation
- Deirdre White, Pyxera Global

- Oren Whyche-Shaw (Retired), USAID

MCC Advisory Council Member Absent with Regrets

- David Spira, Deloitte

Public

- Amanda Beatty (Mathematica)

Notetaker

- Nadine Rivera (notetaker)
- Staci Flanagan (notetaker)

Annexes

Annex 1: MCC Advisory Council Written Feedback – Indonesia Compact

Stephen Groff, Asian Development Bank

1. Past financial crises have led to infrastructure crises in Indonesia and this crisis is unlikely to be an exception. It is critical that all development partners work closely with Indonesia. Yet, there appears to be a misguided notion in some circles in the government that the private sector will come to the rescue with the needed finance. The fundamental problems of bankability remain, with challenges in project identification and screening etc. Continued advocacy and sector work, together with project structuring, will be critical.
2. Indonesia is likely to face challenges in meeting the SDGs, with the pandemic making the distance to SDGs longer. This will be particularly a challenge for decentralized investments. More support will be needed for urban/municipal investments – the sort for which it is difficult to mitigate risk. I understand that AsDB is in preliminary discussions with Temasek Holdings and HSBC in setting up a sustainable investment platform. This will build on ADB's ASEAN Catalytic Green Finance Facility (ACGF). Risk mitigation and blended finance solutions (recognized in the presentation) will both be critical. There seems to be some opportunity for collaboration here.
3. It is very welcome that MCC will have expanded focus on women's access to MSME finance as this will be particularly critical for post-Covid recovery. In this context, Professor Raghuram Rajan, of the University of Chicago has noted the need for adopting a "3R framework" – Repair-Recover-Reform. With a large number of enterprises that have low value-add likely to shut-down, it is important to identify which segments of the economy can be "repaired" and "recovered", while medium term structural reforms take shape. I understand that the AsDB and others are considering a comprehensive financial inclusion program cluster in by the end of the year. It will

be important for MCC to partner with AsDB and other development partners to ensure a coordinated response.

Bob Prieto, Strategic Program Management LLC

Infrastructure Finance

1. Increasing available funds:
    a. Ensure financial instruments contemplated contain covenants that require and define a state-of-good repair. Privately financed infrastructure debt usually contains such covenants while much publicly financed debt galls short in this regard.
    b. Availability type P3s should be considered for first phases (demonstration project) of larger infrastructure projects.
    c. De-risking strategies should include not just those related to project readiness, management and execution but also those related to infrastructure project prioritization and risk appetite.
    d. Infrastructure project prioritization – There are many requirements that a good prioritizing infrastructure investment methodology must satisfy. These include:
        a. Establishment of specific, measurable strategic objectives that our infrastructure investments are intended to move us towards. A focus on common attributes helps make this a manageable task.
        b. Categorization of the various prioritizing factors into three broad classes:
            `. Doing the right things
            `. Doing enough of the right things
            `. Doing right things right
    e. Mapping of these broad classes to the various strategic objectives to create a set of more explicit and actionable set of factors to be considered.

    Each of these considerations contributes to a strong prioritization foundation upon which a strong prioritizing methodology may be further built. This methodology must encompass:

        `. Consideration of relative value and risk associated with various infrastructure investments including thresholds and constraints
        `. Careful benefit tracking to ensure economic, environmental and social benefits are tangible and not double counted
        `. Feedback loops that ensure that the various assumptions made at the project prioritization stage are realized and that further assumption bases for subsequent prioritization efforts are informed by the actual results obtained. Our three broad classes of factors we consider are thus informed by answering the question, "Are we getting the results we desire?"
        `. Economic and financial models that support differentiation, prioritization and optimization of infrastructure investments
        `. Cash flow requirements and concomitant funding and revenue modeling
        `. Clear guidance on the components of capital efficiency to be included in the prioritization effort and the temporal limits of any analysis
        `. Multi-factor analysis or a composite scoring system with well thought out weighting.

The developed prioritization methodology provides a framework for identifying metrics to be tracked, changes to be monitored and ongoing impacts to the balanced portfolio.

f. Risk appetite – many infrastructure project assessments and budgets are established using a P50 value in a world where most contractors are likely to bid a P80 value. Budgets and tradeoffs should assess how a changed risk appetite changes prioritization and selection.

2. Project readiness – This must begin with owner readiness and too often this is overlooked. Owner readiness is touched on in the section point.

   Project readiness begins by assessing the readiness of the owner's organization to undertake the project.

   This assessment must begin with the completeness of baselines documents pre-sanction. Specific baseline documents at this stage should include scope, schedule, budget; a risk register prepared from the owner's perspective, an initial HSES plan and associated, quality plan, and stakeholder management plan.

   Some projects may require additional readiness elements such as a startup and commissioning plan; operating & maintenance plan; and procurement plan. Where procurement is a critical element of success it may be necessary for this early stage procurement plan to address items such as long lead equipment; vendor prequalification; procurement process, selection and negotiation; contract standard terms and conditions; quality control and inspection; logistics plan; and requirements related to acceptance and warranty.

   All programs must have a well-developed financial management plan linked clearly to the program scope and schedule. Any financial constraints, for example cash flow constraints, need to be clearly identified and factored into program execution.

   Management plans and procedures should be in place to ensure the program gets off on the right foot. These plans required for adequate owner readiness typically include (as applicable):

   - Program management plan and procedures
   - Design and interface management
   - Supply chain management
   - Construction management

   Finally, plans and execution approaches must be enabled by appropriate organizational elements, carefully aligned and staffed with individuals with the right competencies to achieve the strategic business objectives of the program. Considerations would include the actual program organization as well as the owner's program management oversight organization (PMO). Organizational plans should support required owner approvals and associated processes.

   Required owner competencies should be defined including the required level and timing (phasing) for requisite skill engagement. Where relevant, owner staff training, recruitment and human resource organizations should be considered.

Tools exist for assessing project readiness at a more granular level. One example is the Construction Industry Institute (CII) Project Development Readiness Index. The Project Definition Rating Index (PDRI) is a powerful, easy-to-use tool that identifies and precisely describes each critical element in a scope definition package. It also enables project teams to identify quickly the project risk factors related to desired outcomes for cost, schedule, and operating performance. By using the PDRI method, teams can capture mitigation action items and evaluate the completeness of scope definition at any point prior to detailed design and construction.

The PDRI is intended for use during front end planning, the project phase that encompasses activities such as feasibility, concept, and detailed scope definition.

A key readiness area for all projects relates to scope. Inadequate scope definition and management has been identified as a major source of degraded project performance. The International Association for Contract & Commercial Management (IACCM) has identified 10 common pitfalls for contract management. Number 1 among these is "lack of clarity on scope and goals". Others have identified that when scope is not clearly and accurately defined, overruns become systemic; scope creep is a consequence and the second highest rework indicator.

In addition to cost overruns arising from poor scope definition, delayed completion and disputes often occur as well.

3. Owner readiness – Owner's readiness should be structured to consider major questions in the following areas:
    1. Owner readiness with respect to an individual program and associated decision frameworks and processes
    2. Program objectives and criteria
    3. Program planning and execution approach

The number one source of program underperformance, particularly at the earliest stages is the owner's failure to articulate and clearly communicate his strategic business objectives for the program. There are several dimensions to this shortcoming including:

1. Poorly defined or articulated vision, mission and top level objectives and, importantly, associated metrics of the owner's organization. As fundamental as it may seem, the assumption that "everyone knows", is just that, an assumption.
2. Strategic Business Objectives of the program must be clearly spelled out and importantly mapped to the owner's top level objectives. This mapping is important since it establishes a program's relevancy and importance in the owner's organization. Sometimes these SBOs may be referred to as program or project business objectives. Experience has shown that even clearly articulating these SBOs is not enough; they must also be continuously communicated.

3. SBO Key Performance Indicators (KPIs) must be established and linked clearly and tightly to the owner's top level objectives. This notion of cascading objectives is essential to program success and owner organizations which have not clearly thought this through run the risk of competing, or even worse, contradictory objectives.

If clearly defined strategic business objectives and clear and continuous communication are the first element of owner's readiness, then a well thought out, supported and tracked strategy is second. The owner's strategy for program implementation must demonstrate strong linkage to SBOs and be directly focused on their achievement.

Strategy must be supported by transparent and substantiated top level business assumptions. In organizations which are not sufficiently ready to undertake a major (or institutionally significant) project it is not unusual to see a lack of a shared understanding of the program's context. Specific assumptions and context defining factors that the owner's organization must be cognizant and comfortable with include those with respect to:

1. Program demand related forecasts
2. Factors related to program revenues
3. Owner's financial condition
4. Resources available to the program
5. Competing programs/priorities and associated resource requirements and timing
6. Assumed changes to law, regulation or policy impacting owner and program and anticipated timing
7. External environment
8. Operating strategy and required lifecycle performance
9. Owner's risk posture and philosophy

Programs must do more than just be aware of the assumptions made in strategy development, they must track them throughout the program lifecycle. One of the greatest challenges long duration programs face is "assumption migration". The owner's awareness of the assumptions he has made and his focus on tracking their migration and importantly understanding the implications of their trajectories is an essential element of owner readiness. As such to total project lifetimes for compact projects must track assumptions.

4. Project management – there are many areas for improving project management but perhaps the simplest and maybe most effective is through quality monthly project reviews. These are not as common or rigorous as one may perceive. Essential elements of effective project reviews include:
    1. Standard, regular project status reports that capture project data in a uniform format across all projects.
    2. A standardized agenda that builds common expectations across the organization.
    3. The right people, both from the project team and the management review team, showing up and asking the hard questions.
5. Demonstration Projects – to the extent possible these should be a minimum "segment" of a larger planned infrastructure project. This has the effect of beginning progress on the larger ultimate project; building up a valuable learning curve for later project phases; and establishing important stakeholder relationships. Brownfield asset recycling as a first stage in a larger project would

represent an opportunity for “bang for the buck.”

MSME Finance

1. A mentoring requirement should be an essential element of any financing in this area to drive longer term success.
2. Women managed construction mentors exist in the NGO sector and should be interviewed/engaged to gain deeper insight on the challenges women managed businesses in this sector face. Two examples:
    a. Bridges to Prosperity
    b. Build Change
3. MSME participation should be required in any infrastructure project financed under this compact.

Tariye Gbadegesin, ARM-Harith Infrastructure Investment Ltd

Core Problems

1. Low supply of Finance: Root cause lack of capital markets and limited bank deposits.
    a. Improve capital markets with pension reform, the development of exchanges (both equity and debt capital markets). Develop and apply credit enhancements to DCM to encourage and train local pension funds and capital market operators to invest.
    b. Status of the banking sector, credit lines to banks for specific purposes with sovereign support.
    c. Programs addressing infrastructure nodes and support.
    d. Is there an infrastructure concession authority for PPP involvement?
    e. Success of Power Africa in providing technical support to government and mobilization of private capital. The program is difficult to apply to more fragmented sectors like transport but there are lessons there.
2. Inability of infrastructure sector to absorb finance.
    a. Project readiness – need a bankable concession framework to start. Without this readiness capital cannot be converted into projects.
    b. Sub-sovereign risk will require sovereign backing. Can be supported with DFI partial risk guarantee as well
    c. Need to address currency risk. Successful cases like Infracredit in Nigeria with Guarantco providing AA wrap to bonds for pension funds.
3. Low supply of finance to MSMEs
    a. Limited availability of SME finance
        `. Successful program in Nigeria called “You Win”, a grant program involving US$10,000 grants based on an application system managed by the ministry of finance. Involved business plan development and coaching. Extremely successful – Many recipients were women.

Infrastructure Finance

1. Develop the ecosystem
    a. Technical assistance
    b. Project development facility
    c. Equity (both international and local, can be part FX part Local)

d. Debt with local currency debt takeout and recycling
e. Credit enhancement to extend tenor for local currency debt and to encourage local participation.
f. Legal framework for targeted infrastructure segments.
g. Credit enhancement framework for sub-sovereign exposure.
h. Local currency exposure – reduced by refinancing with local currency; consider construction guarantees.

Daniel Runde, Center for Strategic and International Studies (CSIS)

Overall points:

1. There is an opportunity for MCC to work together with other U.S. development agencies and use blended finance instruments spread across these agencies more strategically in Indonesia, to improve financial intermediation.
2. On deepening capital markets, MCC can collaborate on technical assistance (TA) with the U.S. Treasury to develop the Indonesian capital market as it relates to subnational financing, for example, by advising on the issuance of subnational bonds to finance transport infrastructure; The technical assistance work of the Department of the Treasury's Office of Technical Assistance (OTA) to develop strong public financial sector and capital markets in countries that are committed to reform, including the development of bond markets.
3. MCC can also work together with USTDA to support provincial-level project development facilities (PDF) that help Indonesia's local governments create a pipeline of quality and bankable projects in transport and logistics.
4. MCC also has an opportunity to reach out to impact investors such as SEAF and others to develop new financial products for underserved communities. MCC can also leverage the work of USAID's INVEST and CATALYZE programs, which focus on mobilizing private capital in developing countries in order to diversify the investor base.
5. MCC can partner with DFC's the Mission Transaction Unit (MTU) (formerly USAID Development Credit Authority) to support credit portfolio guaranteesto established banks and financial institutions to generate additional lending in underserved markets such as women's owned business and MSME.

The INVEST program was created in 2017 to unlock private capital by helping USAID work with investors in developing countries. The program is managed by DAI and carries out market assessments (helping USAID understand market conditions and identify investment opportunities), structures funds and financial products, and helps link capital suppliers to businesses that need investment to grow. As of May 2020, INVEST has built a network of over 250 partners and galvanized $160 million in private capital for development.

Similarly, USAID launched the CATALYZE program in 2019 to mobilize $2 billion in blended finance by 2027 targeting social sectors in high risk countries. The program helps develop commercially viable business. It has created a platform of local and international finances to help develop a pipeline of bankable projects, link investors to projects, structure funds and close complex transactions, support financial and non-financial intermediaries, and facilitate the use of blended finance and private capital in development. CATALYZE has funded projects in education, women's economic empowerment, and agriculture.

Justin DeAngelis, Denham Capital

I like the idea of a development facility to help with derisking projects.

Shehnaz Rangwala, Leadership Global

- All partners, and stakeholders don't always seem to be on the same page. MCA needs to do a better job of oversight and coordination.
- Training and partnerships must be strengthened. A layered approach for local implementation works well – where all partners or players are provided technical support and training.
- More opportunities and access need to be given to local MSME's to partner, this helps build capacity from ground up and provides ownership and sustainability to the project in the future.
- Capacity building and sustainability needs to be built into project design from the start.
- Design or invest in financial measures that aim to increase women's economic independence – this needs to be built into the project from the start.
- Designate a point person or point person(s) who can be contacted to get any information. Information on who to contact should be readily available, especially at MCA.

Given the themes presented in the PowerPoint and the need to further focus the program, how can we use a Blended Finance lens to address the binding constraint of costly and underdeveloped financial intermediation by:

- Deepening capital markets
- Diversifying the investor base
- Broadening the range of instruments

The presentation does not have enough in-depth information to comment on overall strategy.

- Re: deepening capital markets, diversifying investor base and broadening the range of instruments – The use of different financial tools strategically at different stages of a program, can be a powerful tool to successfully attract investment capital.
- Focus on effective partnering for blended finance to fulfil financial objectives, allocate risk in a balanced and sustainable manner between all parties. Except, in the case of women owned businesses that you want to include – special mentoring and special financing incentives should be provided depending on their level of economic development.
- Integrating some elements of a regional approach as opposed to stand alone approach. There could be better results with regional approach.
- As this is part 2 of the Indonesia Compact, I am sure the objectives of the Tri Hita Karana (THK) Roadmap for blended finance are already being incorporated in the program design.

Nadia Schadlow, Hudson Institute

1. One main one is: What does "binding" means. What is a "binding constraint" as opposed to a

"constraint"? The former sounds immutable – so do we really mean that, since we are working to reduce the constraints?
2. Is there really a lack of financing for women owned businesses? I am just surprised as much as what I have read is that there is great deal available – but that the issue is more that it remains micro oriented as opposed to moving toward SMEs.
3. Are there training programs involved with some of these efforts – how is the information scaled so that larger swaths of people benefit from the knowledge we are providing them.

Valerie Vencatachellum, Tony Blair Institute for Global Change

Based on TBI's experience and research, we believe that the "generic enabling environment approach" is not sufficient to promote structural transformation and inclusive growth in developing countries. [1] It fails to effectively address the political economy challenges that hold back many economies and states' capabilities. It also tends to treat the private sector as a homogenous sphere made up of firms with the same growth constraints. Such interventions need to be complemented by politically smart market-based sector development in order to succeed. It will require focus and perseverance from governments and their partners over many years.

It is therefore heartening to see that MCC is pursuing its investment in Indonesia beyond the first compact. For this second compact, as is customary for its engagement, MCC has undertaken an analytical process to identify current constraints to growth, their root causes and prioritized intervention in geographical areas based on their propensity for reforms and impact on growth and poverty reduction. As a result, MCC is currently working to develop full project proposals in 2021 to address the financial intermediation constraint, with particular focus on transport and logistics infrastructure as well as MSMEs with a special lens on those owned by women.

I would like to share below some of our learnings that can serve to frame those projects in such a way that they can be effectively executed to achieve impact:

1. Adopt a sectoral approach

   A sectoral approach is important to anchor support to MSMEs within the broader development agenda of the country. This means that development support is needed both upstream to undertake sector development and in parallel, downstream, to do project development across a wide range of projects – from large infrastructure to smaller MSME projects – that will enable a sector that can have the most transformative potential to grow.

   This value chain approach, systemic approach or modern industrial policy is imperative to address the range of constraints that are inhibiting MSME development in that sector, such as regulatory framework, labour inefficiencies, high transaction costs, demand inhibitors, etc. This is contrasted to a generic enabling environment approach, where macro level interventions are not scaled for MSME needs, or where ad hoc support to firm-level investment transactions yields low returns because it does not account for sector-level and macro-level reforms.

Orienting development finance towards facilitation of both private- and public sector investment can secure a step change that can lead to large-scale job creation and economic transformation. Such facilitation allows investment to be gently and adaptively steered towards the most impactful sectors without resorting to excessive top-down planning or overly centralised industrial policy. [2] Impactful sectors can be selected across a range of criteria, such as the inherent characteristics of a country, the capacity of a sector to spearhead a process of innovation and cost discovery as well as the extent to which it has an impact on the political economy and can increase or decrease the commitment of the business to ask the political elite to invest in institutions and inclusive market systems.

2. Insist on strategic alignment, planning and competition

In particular for infrastructure projects, but not only, evidence-informed economic and technical planning needs to be prioritized by both Government and their development partners. Project selection needs to be aligned to the development agenda of the country and of its provinces.

Because of political imperatives and insufficient capability, when robust development plans do not exist, there is sometimes a tendency for governments to engage on whichever proposal comes along. As a result, project selection can be based on the efficacy of the lobbying rather than economic and technical needs. The consequences are often infrastructure projects that are inadequately dimensioned or designed, above prices that could have been secured competitively.

To mitigate this risk and maintain the focus on impact that requires difficult trade-offs, close trusted rapport between the government and its partners is a requisite. It is important to insist on evidence-informed sectoral planning, dynamic decision mechanisms, competitively sourced projects and rigorous due diligence on the economics of the project from the country's or local government's perspective.

3. Pay attention to hidden economic risks

More often than not, finance gets channeled to where it can make the highest return for the lowest risk – not where it is needed the most. For instance, as per successive reports of the Infrastructure consortium for Africa [3] , the water sector continues to have the biggest funding gap, while ICT, transport and energy attract the most investment.

Typically, developers or lenders do not take some key risks on infrastructure investment – notably by securing return on investment regardless of demand. Therefore, developing a public-private partnership (PPP) with blended finance can sometimes be viewed as being analogous to a loan. A government will be called to pay a fixed annual amount to a special purpose vehicle (SPV) to service debt and provide an equity return regardless of demand for the asset, with some variable component based on usage. Because it is however not viewed as a loan under international accounting rules, ministers of Finance may be tempted to view PPPs as a means to take projects off balance sheet, thereby retaining borrowing capacity. Moreover, the denomination of all blended finance, often in foreign currency, can exacerbate balance of payment challenges. It is important to raise awareness and monitor such economic risks.

4. Strive for donor coordination

   As a corollary to the above, coordination between development finance institutions (DFIs) and bilateral donors is necessary to ensure that the same approach is being applied by all. On infrastructure projects, there have seen instances where, on the one hand, donors may be helping develop least cost plans while DFIs are funding non least cost projects, rendering the planning efforts redundant and placing millions of dollars in in unnecessary liabilities on the host government and population. On supporting MSMEs, given the limited supply of bankable projects, there are instances of donors competing to support the same companies, creating perverse incentives for those that they seek to help.

5. Segment and coach MSMEs

   On the micro level, it is useful to design a framework and diagnostic tool for establishing categories of MSMEs by scoring them on standards of performance and bankability applicable to that sector. For instance, in the case of an agro-processing sector, a scorecard can be designed on such categories as business governance, sourcing, marketing, processing, manufacturing, etc. This evaluation, which can be carried out independently, helps to reduce information asymmetry that is detrimental to MSME financing. It provides benchmarks for MSMEs for their performance and for financing institutions to assess bankability based on their own criteria, such as risks, ticket size, business maturity. It also helps to wean out entrepreneurs that are more driven by concessional financing than competitive market efficiency.

   Addressing the knowledge and skills gaps of entrepreneurs is as critical as providing affordable credit or upgrading the ecosystem. Business coaching and long-term investment in leadership development of entrepreneurs is a requisite for successful business development. In particular for women, providing the right type of human-centred support is a determinant for developing entrepreneurial capacity.

6. Establish a trusted partnership with the government

   Government has an important role to play in leading and coordinating this effort using a range of policy and programmatic tools that support sector development and build investor confidence on the middle to long term. Concessional financing will be the most impactful when it succeeds in unlocking commercial finance, by revamping the regulatory regime and enhancing state capability. Building strong rapport with governments through a local presence, in-country expertise and partners as well as working with both public and private interlocutors on transformative sectors on the long term are preconditions for success.

Tony Bello, Shine Bridge Global, Inc.

Infrastructure Finance Examples – Nigeria

What Worked

- Lekki Toll Road Project
- Presidential Fertilizer Incentive

What Did Not Work

- Staple Crop Processing Zones
- Agribusiness Investment Regions
- Nigeria Expanded Trade and Transport Program (LAKAJI Investment Corridor)

Key Lessons Learned

- Blended Financing
    - AfDB
    - Sub-national government
    - Deposit Money Banks
    - Private sector
    - Domestic capital markets
- Local currency and expertise
- SPV company
- PPP implementation team
- Bankable business plan
- Extended project development timeline

MSME/W-MSME Finance Examples – Nigeria

What Worked

- Growth Enhancement Support Scheme
- Funds for Agricultural Financing
- CBN Anchor Borrowers Program
- Commercial Agriculture Credit Scheme
- IFC Funded Access Bank W-MSME

Lessons Learned

- CBN development capital
- Blended financing – National Sovereign Investment Authority, KfW, FMARD
- NIRSAL Guarantee – Risk mitigation
- Private sector off-take market guarantees
- Fintech – farmer registration database/biometrics/local expertise
- Farmer cooperatives
- Early Stage Business Competitions
- Handholding Closed Community

- Single digit interest rate
- 0% Non-performing loans
- Project Development Facility – grant awards
- Brownfield asset recycling
- Financial asset recycling
- Extended project development timeline
- Deposit Money Bank Mindset

Deirdre White, Pyxera Global

For MSME/WMSME Finance, I would like to focus on what I have seen work really well and that is a more complex approach to supporting the sector than what appears to be outlined in this document (though there is likely much more behind it than what is evident in the few pages we have here.) Specifically, access to finance, or even access to finance plus some skill building is never really sufficient to building a robust MSME sector in my experience. The most successful programs I have touched in this space have looked at industries where there is steady growth trends and or great potential for large (often multinational) buyers, and a broad or deep potential to include smaller suppliers (due to industry needs, but also possibly due to some kind of local content/local procurement legislation or political/social pressure). Such an approach would begin with a gap analysis of the demand and the potential to meet that demand through small, local suppliers.

Post-gap analysis, a successful intervention would include:

- Access to finance (technical assistance on investment readiness for the MSMEs, training for financial institutions on assessing creditworthiness, industry-specific partial credit guarantee or other finance facilities (possibly supported by the large buyers.)
- Access to training services (the basic skills/capacity building recommended in the document, as well as relevant sector-specific training.
- Access to advisory/technical assistance to meet specific requirements of the buyers (this could include advisory services to support the skills/digital/financial literacy mentioned in the PPT, but would also include support to meet HSSE, financial, and quality management requirements, preparation for international certifications—things that will allow the MSMEs to access more substantive contracts over time. There is also an opportunity to engage the buyers in delivering some of this assistance.)
- Access to appropriate technology (not necessarily ICT, but whatever the technology is that would support the efficiency and growth of the MSME.)
- Access to actual contracts (which means intentionally working with the larger buyers to create a minimum set of acceptable standards, and to build in these smaller contract opportunities, for instance unbundling what would have been larger contracts into parts for which MSMEs would be competitive; the means creating a database of potential suppliers who meet those minimum criteria, and working to build the capacity of others to reach those criteria; it also means creating opportunities for buyers to meet and interact with potential suppliers they never would have been aware of; as an aside, the contracts may well be considered collateral or otherwise be useful in assessing creditworthiness and bringing more and different sources of finance to the table.)
- Access to networks (once MSMEs meet the procurement requirements of one industry sector, they are likely to be adequate—depending, of course, on how niche the product or service is—for other

sectors.)

I have seen this comprehensive approach work especially well in the oil and gas sector in multiple countries, as well as in the ag sector and have seen some experimentation in the hospitality/tourism sector. Quite simply, real opportunity, and real contracts attract more finance. This approach is highly adaptable to circular economy solutions, which is a huge area of potential in most any country.

It stands out in that it does not begin with finance as the solution, or access to finance as the problem. Rather it starts with lack of contracts to local businesses as the problem, it defines the specific needs of one or more industries and specific potential buyers to anchor where the training and TA will be focused, and it is highly intentional in the engagement of the private sector in commitments to contracting in new ways. In one particular case, where a significant infrastructure investment was involved, we were successful in getting an IOC to build into their contracts with their engineering and design contractors a requirement to design in a way that maximized local business procurements in both design and operation of the facility. I am happy to provide some case studies or other support materials as is helpful.

I realize this was not a succinct answer to the specific questions below, but my experience has said that taking on the finance issue in a siloed way is not the most effective approach.

I would also close with a question to the team that prepared this approach—to what extent was Islamic banking considered in the array of financing sources? I assume it was, and would love to hear the thinking of the team regarding where that fits into the finance mix.

Olu Verheijen, BFA Foundation

Access to Finance for MSMEs

MSMEs in the non-tradable sectors in Indonesia could benefit from blended finance products that catalyze local currency lending to match their receivables. An example is the FEI-OGEF debt fund sponsored by AFDB and managed by LHGP which targets underdeveloped financial intermediation in the off-grid energy sector in Africa. OGEF provides local currency debt products that are mostly targeted at providing working capital e.g. inventory and receivables financing. The fund is also supported by a Technical Assistance facility that supports enterprises in building capacity in areas such financing, legal strategy and regulatory compliance.

Women Led SMEs

I'm not aware of disbursements from OGEF to women led MSMEs and that is likely a function of few women businesses reaching the scale at which they would qualify for the fund's average ticket size. Another gender focused initiative I'm aware of is the 2x challenge led by CDC. Again, I have seen announcements of disbursements to MSMEs that focus on gender inclusivity in leadership, employment and consumption not women led MSMEs. The most successful program seems to be the IFC-Goldman Women Entrepreneurs Opportunity Facility with examples of leveraging fintech's like Ant Financial, altering their fixed-asset collateral requirements for certain types of loans and crowding-in private capital.

A lot more innovative non-financial intervention is required at the Seed/Pre-series A stage to grow the pipeline of women-led SMEs that could benefit from these initiatives.

Annex 2: MCC Reponses to Advisory Council – Indonesia Compact

Infrastructure Finance

MCC is thankful to the Advisory Council members for their thoughtful comments and feedback, which will help us in developing the program. The members' perspectives and experiences with involving institutional investors in infrastructure were particularly helpful, and we would welcome any further ideas on policy and institutional reforms that can help deepen the financial sector as well as innovative deal structures that can help inform our development efforts. We strongly agree with the comments about exploring blended finance approaches for de-risking, for tenor extensions of local currency financing, and for opportunities to promote commercial bank take-out financing. MCC will focus on how to use blended finance to help promote local financing solutions, including identifying opportunities for investor education to help institutional investors get more comfortable with infrastructure exposure and with more sophisticated structured financing approaches. We will also seek to bring international investors to Indonesia, including exploring the use of blended finance for foreign exchange hedging structures. MCC will seek to facilitate opportunities for State-Owned Entity brownfield asset recycling, through which we can help bring projects to market under limited concession schemes and public-private partnerships. This can help broaden Indonesia's investor base by facilitating the entry of high-quality sponsors to the local market. We will also seek to collaborate with the US International Development Finance Corporation (DFC) and other development partners across these potential initiatives.

Meanwhile, MCC will participate in a GOI/USG working group as part of a bilateral cooperation framework designed to strengthen infrastructure finance and market building that "will address regulatory, market, and legal barriers to private sector investment by focusing on the development of financial instruments, project finance, the local debt market, and capital markets." [4] "The memorandum of understanding stipulates several priority areas of cooperation, including: 1) development of a more liquid regional financial market for infrastructure investments; 2) formulation and identification of financing tools and structures that can catalyze, facilitate, and address barriers to private sector investment in infrastructure; 3) encouraging innovation and sustainability of infrastructure financing; and 4) exploring financial capacity-building and technical collaboration programs in infrastructure financing." [5]

MSME/Fintech

MCC also appreciates the Advisory Council members' insights, comments, and questions related to access to finance for MSMEs. As part of project design, MCC will be conducting further due diligence and co-creation efforts with the GOI's compact development team (CDT). This will cover collecting data on both MSME needs on demand side and on providers of financial services on the supply side, including traditional lenders as well as Fintech players, both for SMEs as well as women-owned enterprises.

As we develop the program, MCC and the CDT will be careful about designing any approaches that may distort the financial markets or crowd out any private sector players with Blended Finance instruments like first-loss / guarantees, viability gap funding, and technical assistance. In applying these approaches, MCC will strive to adhere to the OECD Guidelines for Blended Finance and IFC's five key blended finance principles, which include having an economic rationale, crowding-in and minimum concessionality, commercial sustainability, reinforcing markets, and promoting high standards.

While the financial sector may be relatively small in Indonesia, it is unlikely that MCC would end up supporting enough infrastructure projects that would significantly affect demand for credit and create upward pressure on interest rates to the detriment of MSMEs. By supporting financial asset recycling opportunities, MCC may be able to deepen capital markets while freeing up lending capacity on the part of commercial banks for more productive investment, given high loan-to-deposit ratios and other prudential considerations in the banking sector. Moreover, it is worth noting that the GOI already has programs to facilitate access to finance for MSMEs, including commercial bank lending requirements interest rate subsidies for MSMEs.

MCC is currently working with the CDT to develop full project proposals in this area that will start to outline the mechanisms for implementing interventions that can then be subjected to MCC's due diligence. For example, if the compact will be holding any kind of competitive process to solicit creative ideas for financial service provider innovations to serve W-MSMEs, that will emerge in the review of project proposals. During compact development, the CDT is working with a range of ministries, NGOs and business associations to understand the MSME financing landscape and where MCC funds may usefully fill any gaps, in our three target provinces in particular. Once in implementation, these solutions will be procured by MCA-Indonesia as the implementing entity for the compact. MCA-Indonesia is likely to be governed by a board of prominent Indonesian officials and non-government representatives as described below.

Political Risk

Political risk is an important issue raised by the Advisory Council members related to addressing political risks within Indonesia and implementing a compact that could have transformative impact. MCC's own experience in Indonesia has led us to believe that the key to both of these issues is to have a fully engaged and empowered set of government and non-government champions in place within the leadership of MCA-Indonesia, the body responsible for implementing the compact. Under MCC's first compact, Indonesia established a strong board of trustees that governed MCA-Indonesia including both government and non-government (NGO, academic and private sector) actors of high political and social status. During times of political transition, the board relied heavily on these non-government actors to continue work of MCA-Indonesia. Board members and other high-level champions served as critical interlocutors to promote the projects and create a path for sustaining them beyond the compact term. As an example, the work that MCC had done with the National Public Procurement Agency (LKPP) to create standard bidding documents for procured PPPs was taken forward by the Chairman of LKPP and is now being continued by LKPP in partnership with other donor partners, including the Asian Development Bank and Japanese International Cooperation Agency, leading to additional reforms in this area.

Endnotes

1. https://institute.global/sites/default/files/articles/The-Jobs-Gap-Making-Inclusive-Growth-Work-in-Africa.pdf
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